



APRIL 15, 1955



1026 17th STREET, N. W., WASHINGTON 6, D. C.

## The National Debt—A Job of Management

DO you worry that "our children and our children's children" will still be bearing the burden of our huge national debt? Do you see it as a source of inflation? Or do you say, "It's a small matter compared with the country's wealth. Besides, we owe it to ourselves, don't we?"

The United States has had a national debt ever since 1837, but before World War I it was equal to only three per cent of the national income. The debt has taken its biggest jumps during and after major wars.

By 1946, following World War II, the debt equalled 136 per cent of the national income. Budget surpluses during the postwar period somewhat reduced the debt, but the downward movement was soon checked by expenses of the Korean War and the cold war.

Today the government owes a little more than in 1946. But because of the increase in the country's production and the inflationary rise in prices, the figure now represents only 94 per cent of the national income.

### Who Owes Whom?

Everyone who buys government bonds or other government securities is lending money to Uncle Sam. This means the national debt is owed to all the individuals and groups holding these investments. About one fourth is owed to individuals, one fourth to commercial and savings banks, and the other half is owed to lenders such as public trust funds (federal social security system, for example), Federal Reserve Banks, state and local governments, insurance companies, corporations. Some of it is owed to you, if you possess any U. S. government bonds.

Since the government represents the entire nation's population and so borrows from the people and pays

back to the people, why do we consider the national debt a burden?

For one thing, the money we as citizens lend to the government is paid back to us with interest, and interest means taxes. The present annual interest payment is \$6 billion—about 10 per cent of all federal taxes—and this is a burden.

### Debt Management

For another, the enormous debt growing out of past deficits is likely to persist. While it might be reduced, by means of a budget surplus, that could have a depressing influence on the economy. On the other hand, a budget deficit might have an inflationary influence. With either surplus or deficit, there is always the problem of *managing* the debt.

The Treasury Department has this responsibility and its decisions can have an important effect on what the dollar will buy and therefore on the welfare of all of us.

For example, in February the Treasury had the task of refunding \$14 billion of the debt. The outstanding element in the operation was the issuance of \$2 billion of 40-year bonds due in 1995 in exchange for a maturing 20-year issue that was put out in 1935. This refunding and previous refundings have lengthened the average maturity of the debt and have brought down the total amount due within a year from \$76 billion to less than \$60 billion.

As money has been borrowed, repaid and borrowed again, the debt has come to consist of some 60 different issues, ranging in maturity from a few days to 40 years. When a new issue is put out the Treasury must try to set the terms as to interest rate, maturity, convertibility, etc., to avoid payment of higher interest than necessary and yet attract investors. It must consider the kinds

of investments desired by various groups of lenders, the amount of money available for investment, and the competition of other borrowers for funds. The Treasury must also consider other factors such as the maturities of the national debt already in existence, future refunding needs, and the effect of its actions on general credit conditions.

Most commonly known of the various issues outstanding are the E bonds, which appeal particularly to individual savers; E bonds are non-marketable. Most of the rest of the debt is in marketable form.

During World War II and the early postwar years the Federal Reserve System in effect stood ready to buy any amount of government securities from their holders at a "pegged" price, slightly above par. This made it easy for banks and other financial institutions to sell their bonds without risk of loss and get money to loan at higher rates. The resulting oversupply of credit contributed to the great inflation of prices after World War II and during the Korean War. In March 1951 the Federal Reserve authorities and the Treasury agreed that this practice should be abandoned. Since then the prices of government securities have fluctuated with the supply of and demand for loanable funds, like other interest-bearing securities.

Thus the government has a continuing job of managing the debt so that it will not upset the balance of the economy and may even assist to keep prices stable and everybody employed.

Next League spot on "Week-end," NBC radio, will be on Sunday, May 1. Check with your local station as to hour, as daylight saving time will then be in effect.

# Proposal for World Trade Cooperation

The Organization for Trade Cooperation is a new proposal to enable nations to work together on problems of world trade. The OTC's main function will be to administer the General Agreement on Tariffs and Trade, a basic and comprehensive trade agreement among the United States and 33 other countries.\*

The OTC was formulated in Geneva, Switzerland, at a conference ending in March 1955, in which the United States and the 33 other nations participated. The OTC would come into being upon approval by those (of the 34) nations which account for 85 per cent of the foreign trade of the GATT nations.

The OTC is made up of an Assembly, an Executive Committee, and a Secretariat.

The Assembly would meet once a year and each of the 34 nations would have one vote.

The Executive Committee would be made up of representatives from 17 nations. The five nations of chief economic importance would be included automatically among the 17; the United States would obviously be one of the five. In addition, the composition of the Executive Committee would include nations from different geographic areas and in different degrees of economic development. The Executive Committee would operate according to powers and duties

assigned to it by the Assembly, and decisions would be made by a majority of two thirds of the votes cast.

The Secretariat would be headed by a Director General appointed by the Assembly. He would have the power to appoint the staff and determine their duties and conditions of service in accordance with regulations approved by the Assembly.

## Modest Cost

The OTC would operate on a moderate budget. It would not be substantially greater than the budget which has enabled members of the GATT to meet annually and conduct their business. Each nation's share of the budget would be determined, basically, in proportion to that nation's share of the foreign trade of the nations in the GATT. At the present time the United States contributes 17 per cent of the budget (of GATT) or about \$60,000. This is a slightly lower percentage than the U. S. share in the world trade of the GATT nations.

The purpose of the OTC would be to provide a forum for the business of the member nations in the GATT. Functions would include discussion of trade disputes among nations, sponsoring trade negotiations, and reviewing various proposals by which the trade barriers of individual nations might be reduced.

The proposed international organization would have no authority to

\* The functions and work of the GATT were explained in the April 1 NATIONAL VOTER.

## ★ CONGRESSIONAL SPOTLIGHT ★

**TREATIES:** Senate Judiciary Subcommittee on Constitutional Amendments begins hearings April 27 on S. J. Res. 1, the Bricker Amendment to limit the President's treaty-making powers. Members of the Subcommittee are: Senators Kefauver (D., Tenn.), chairman; Hennings (D., Mo.), Daniel (D., Tex.), Langer (R., N.D.) and Dirksen (R., Ill.).

**TRADE:** Senate Finance Committee is continuing executive sessions on H. R. 1,\* House-passed bill to extend the Trade Agreements Act for three years and grant authority to the President for gradual tariff reductions.

**U.N. CHARTER REVIEW:** Subcommittee of Senate Foreign Relations Committee has scheduled hearings in Washington, beginning April 18, on U.N. Charter review, following the regional hearings which have been going on since Feb. 1954.

\* Indicates League support.

**WIRETAPPING:** House Judiciary Subcommittee is holding a series of hearings to examine the problem of wiretapping. Consideration is being given to the use made of wiretap testimony in states where it is legal and whether or not the practice of wiretapping should be banned.

**PERJURY:** S. 1554, introduced by Sen. Wiley (R., Wis.), and H. R. 5264 introduced by Rep. Reed (R., Ill.), would extend the law making perjury a crime, to cover wilful giving of contradictory statements under oath. Referred to Senate and House Judiciary Committees, respectively.

**FEDERAL ELECTIONS:** Hearings on S. 636, to revise the federal election laws to prevent corrupt practices, began April 12 before the Privileges and Elections Subcommittee of the Senate Rules and Administration Committee. Sponsors of the bill are Senators Hennings (D., Mo.), Gore (D., Tenn.), Green (D., R.I.) and Hayden (D., Ariz.).

veto the acts of individual governments or to impose new obligations on them without their consent. It would have authority only to consider problems, to recommend courses of action, and to determine whether individual countries had been hurt by the action of others in trade matters. Functions and authority of the OTC would be substantially unchanged from the manner in which the GATT has been carried out since its beginning in 1947. The main difference would be a greater degree of coordination and continuity in the work of the General Agreement.

Any nation which is a member of GATT would become a member of the OTC. A nation may be admitted to the GATT by an affirmative vote of two thirds of the member nations. The new nation would also be required to enter into trade negotiations with other GATT nations.

The OTC, once established, may "by an agreement approved by the Assembly, be brought into relationship with the United Nations, as one of the specialized agencies . . ." Such an agreement would require the approval of the U.N. General Assembly.

President Eisenhower is expected to ask Congress to approve U. S. membership in the OTC. A bill to this effect will soon be introduced in the Congress. Rather than either accepting or rejecting the OTC as proposed, the Congress may place certain conditions on U.S. membership. If these conditions basically alter the character of the OTC, the proposal would then have to be renegotiated. If other countries were unwilling to accept the United States' conditions, then the new organization would not come into being.

As stated above, approval by nations accounting for 85 per cent of the foreign trade of the GATT nations is necessary if the OTC is to be accepted. The United States accounts for 20 per cent of this foreign trade. U.S. participation, therefore, is vital.

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